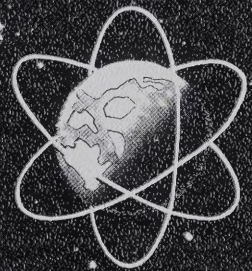


MAGNA ELECTRONICS CORPORATION LIMITED

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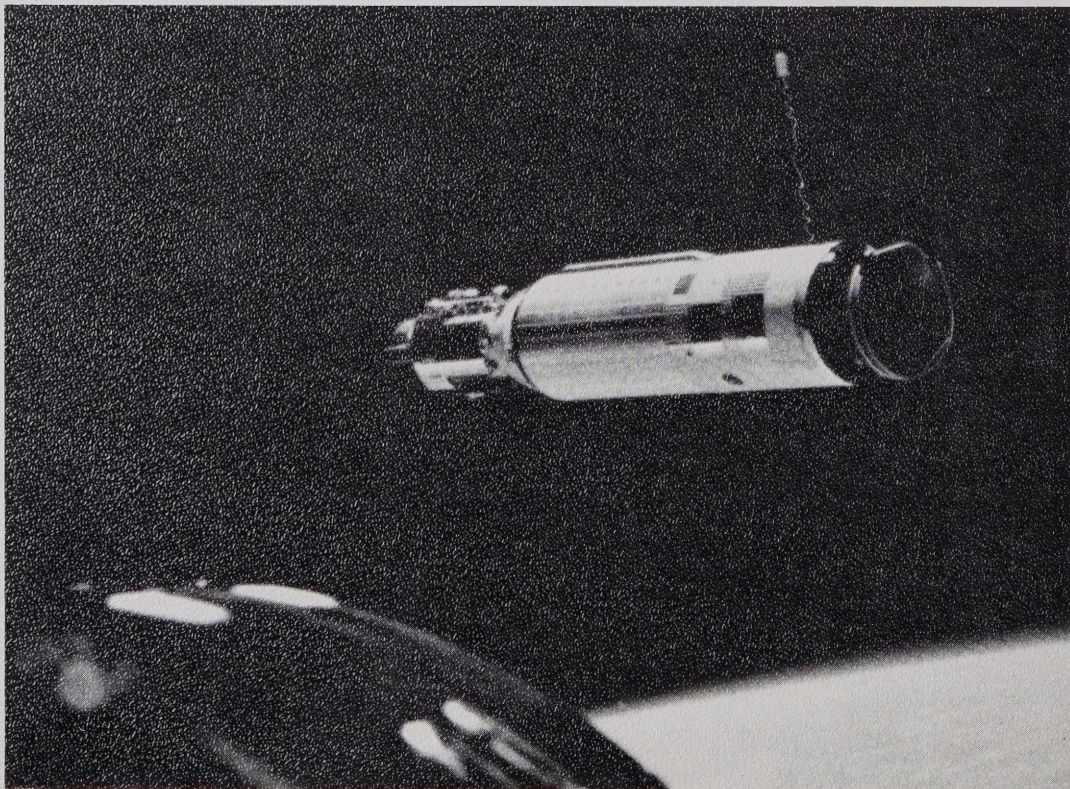


ANNUAL REPORT 1968

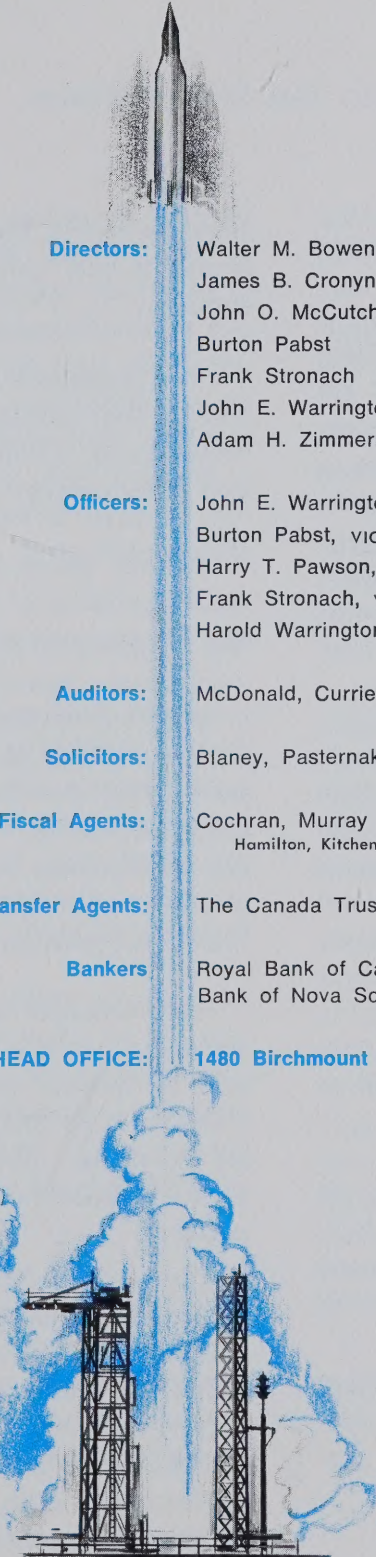


Highlights

	1968	1967
Earnings before depreciation, cost of long term debt and income taxes	\$ 650,666	\$1,311,141
Depreciation	234,174	161,953
Cost of long term debt	116,798	43,078
Income taxes	146,300	567,000
	<u>\$ 497,272</u>	<u>\$ 772,031</u>
Net earnings for the year	\$ 153,394	\$ 539,110
Shares outstanding — common	353,000	350,000
— preference	2,145	2,189
Earnings per common share (before preference dividends)	43.5¢	\$1.54
Earnings per common share (after preference dividends)	39.6¢	\$1.50
Dividends paid — common	10¢	10¢
— preference	\$6.50	\$6.50
Equity per share	\$4.00	\$3.68
Working capital	\$2,022,560	\$1,003,013



Photographed through a window of the Gemini 8 spacecraft by Major David R. Scott, the Agena rocket is seen close by, a few moments before the historic docking manoeuver between it and the spacecraft was accomplished.



Directors: Walter M. Bowen
James B. Cronyn
John O. McCutcheon
Burton Pabst
Frank Stronach
John E. Warrington
Adam H. Zimmerman

Officers: John E. Warrington, PRESIDENT
Burton Pabst, VICE-PRESIDENT
Harry T. Pawson, VICE-PRESIDENT
Frank Stronach, VICE-PRESIDENT
Harold Warrington, SECRETARY-TREASURER

Auditors: McDonald, Currie & Co., Toronto

Solicitors: Blaney, Pasternak, Smela, Eagleson & Watson, Toronto

Fiscal Agents: Cochran, Murray & Co. Limited, Toronto, Montreal,
Hamilton, Kitchener, London

Registrars and Transfer Agents: The Canada Trust Company, Toronto

Bankers Royal Bank of Canada, Toronto
Bank of Nova Scotia, Toronto

HEAD OFFICE: 1480 Birchmount Road, Scarborough, Ontario



President's letter to the Shareholders

IMPORTANT developments have recently taken place in your company.

Effective December 1, 1968, Magna Electronics Corporation Limited acquired all the outstanding shares of Multimatic Investments Limited, a holding company controlling a group of specialized manufacturing subsidiaries serving mainly the automotive industry. The purchase price was \$2 million of which \$800,000 was paid in cash and the balance by the issue of 100,000 common shares from your company's treasury.

Messrs. Burton Pabst and Frank Stronach, the previous owners of Multimatic, and both highly experienced in engineering and die and tool making, have joined your company's board of directors and will continue to direct the operations of Magna's new Multimatic division.

Further details on the acquisition are contained in the information circular mailed to you with this report.

The five Multimatic subsidiaries, all located in the greater Toronto area, supply original parts to the U.S. automotive industry under the Automotive Free Trade Agreement.

It may be of interest to our shareholders to know that for the car model year 1969, Multimatic is the only North American producer of certain automotive parts.

Multimatic's net earnings, after taxes, for the year ended July 31, 1968, were \$189,053. Profit estimates for the current year, based on orders completed and in hand, are sub-

stantially higher. These profits will contribute greatly to your company's future per share earnings.

The acquisition of Multimatic marks the entry of your company into the field of automotive parts manufacture and is a further step in its program of diversified expansion.

Another move in this direction is the recent formation of Magna Cote, a new division of your company.

Magna Cote uses polyamides and other organic coatings to cover glass, plastic and metal surfaces with a wide range of attractive colours and textures. These coatings can stand high temperatures, have great resistance to abrasion and, due to their flexibility, chipping is eliminated.

Your directors are optimistic about the marketing potential of Magna Cote's products, particularly suited to the needs of the cosmetic, wine bottling and cookware finishing industries. Other uses and applications of the process are being vigorously researched.

As shareholders are aware, the Magna Electronics division has a versatile, modern production facility manufacturing high precision parts for space exploration, aviation and for the industrial electronics industry.

New techniques are being constantly developed as modern programmed and automatic, numerically controlled equipment is added to this division's already outstanding production plant.



One of the newest processes recently started by your company, and a "first" in Canada, is the highly complex machining of pure beryllium. The characteristics of this metal are light weight, high heat absorption and extreme stiffness; its main use at present is in missiles and outer space craft. You may be pleased to know that your company is pioneering in this field and is currently producing high precision parts for inertial guidance systems.

More extensive use of the metal is predicted for the aircraft industry. McDonnell-Douglas Corporation is now experimenting with a beryllium rudder on its Phantom F-4 fighter and Lockheed uses the metal in the brake linings of its C-5A military transport. At the moment, only three companies in the United States derive a significant share of their sales volume from working the metal.

Your management is greatly pleased with the acceptance of its products by the U.S. industry, as expressed by the growing number of clients among the big aero-space companies and the prospects of larger and longer-term contracts than are available from Canadian firms.

Verral Metal Fabricators, another of your company's divisions is engaged in the machining and assembly of various gears, helicopter parts, casings for electronic equipment, as well as the manufacture of drafting tables and desks. New lines of metal fabrication for commercial and military applications are constantly being added to Verral's production.

For the year ended August 31, 1968, your company's financial statements show net

earnings, after taxes, of \$153,394, compared to net earnings of \$539,110 for the 1967 fiscal year. Earnings per common share, after dividends on preference shares, were 40¢ and \$1.50 respectively.

Lower earnings in 1968 were due to the decrease in spending on military and aircraft programs. The resulting curtailment and stretch-out of orders had an adverse effect on the operations of the Magna Electronics division.

Your directors are confident that with increased penetration of the U.S. market and, hopefully, improved conditions in the aerospace industry south of the border, the high level of profitability of this division will be restored.

Expansion into other fields of industrial activity and wider product diversification should lessen the impact on your company's operations of seasonal or other economic vicissitudes affecting a specific industry. They should also contribute substantially to your company's growth and overall profitability.

On behalf of the board,

J. E. WARRINGTON,
President.

Toronto, Ontario
January 30, 1969.



Consolidated Balance Sheet as at August 31, 1968

ASSETS**CURRENT ASSETS**

	1968 \$	1967 \$
Cash and short-term deposits	1,205,541	360,999
Accounts receivable	626,183	712,179
Inventories — raw material and work in progress at lower of factory cost or net realizable value	468,474	463,102
Prepaid expenses and sundry assets	91,787	28,559
	<u>2,391,985</u>	<u>1,564,839</u>

MORTGAGE LOAN

7½%, due May 9, 1987	132,500	134,500
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FIXED ASSETS — at cost

Land	67,988	20,876
Buildings and improvements	526,122	285,580
Machinery and equipment	2,057,796	1,446,984
	<u>2,651,906</u>	<u>1,753,440</u>
Accumulated depreciation	940,843	719,024
	<u>1,711,063</u>	<u>1,034,416</u>

OTHER ASSETS

Excess of cost of investment in subsidiaries over book value of their net assets, less amount written off	170,184	137,161
Unamortized debt financing expense	83,869	21,095
Sinking fund for redemption of preference shares	13,051	—
	<u>267,104</u>	<u>158,256</u>
	<u>4,502,652</u>	<u>2,892,011</u>

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Magna Electronics Corporation Limited and subsidiaries as at August 31, 1968 and the consolidated statements of earnings and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated

financial statements present fairly the financial position of the companies as at August 31, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accept-

ed accounting principles applied on a basis consistent with that of the preceding year, after giving effect in that year to the change in accounting for income taxes as explained in note 1, with which change we concur.

McDonald, Currie & Co

Toronto, Ontario
November 15, 1968

McDONALD, CURRIE & CO.
Chartered Accountants



LIABILITIES

CURRENT LIABILITIES

	1968 \$	1967 \$
Bank loan	67,000	—
Accounts payable and accrued liabilities	201,308	281,074
Income taxes payable (note 1)	9,177	245,457
Current portion of long-term debt	91,940	35,295
	<u>369,425</u>	<u>561,826</u>

LONG-TERM DEBT

6½% convertible debentures due December 1, 1987 (note 2)	2,000,000	—
7% Industrial Development Bank loan due August 23, 1972 (note 3)	73,000	—
Capital assistance grant (note 4)	294,701	79,925
6¾% first mortgage sinking fund bonds	—	425,000
6½% floating charge debentures	—	150,000

Less: Current portion	2,367,701	654,925
	91,940	35,295

	<u>2,275,761</u>	<u>619,630</u>
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DEFERRED INCOME TAXES (note 1)	233,000	204,000
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	<u>2,878,186</u>	<u>1,385,456</u>
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SHAREHOLDERS' EQUITY

CAPITAL STOCK

Authorized —		
9,645 6½% cumulative, sinking fund preference shares with a par value of \$100 each, redeemable at \$105 (note 5)		
1,000,000 common shares without par value		
Issued and fully paid —		
2,145 preference shares (note 5)	214,500	218,900
353,000 common shares (notes 2 and 6)	377,505	317,505

	<u>592,005</u>	<u>536,405</u>
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CONTRIBUTED SURPLUS (note 5)	6,708	6,532
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RETAINED EARNINGS	1,025,753	963,618
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	<u>1,624,466</u>	<u>1,506,555</u>
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	<u>4,502,652</u>	<u>2,892,011</u>
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Signed on behalf of the Board:

J. E. Warrington, Director.

J. B. Cronyn, Director.



Notes to Consolidated Financial Statements

for the year ended August 31, 1968

1. INCOME TAXES

- (a) In 1968 the basis of accounting for income taxes was changed to reflect deferred income taxes in the financial statements rather than by way of footnote as in previous years. Deferred taxes of \$29,000 deducted in the statement of earnings represents income taxes which may be payable in future years when capital cost allowances available for tax purposes are less than depreciation reflected in the accounts. The 1967 figures have been restated to be on a comparable basis with those of 1968.

Deferred income taxes accumulated to August 31, 1966 have been recorded by a transfer from retained earnings of \$136,300.

- (b) A subsidiary company has pre-acquisition losses of \$150,000 available to apply against future earnings for tax purposes.

2. 6½% SUBORDINATED SINKING FUND CONVERTIBLE DEBENTURES

- (a) These debentures are convertible at the holder's option on or before December 1, 1977, at the rate of 50 common shares for each \$1,000 debenture. Should the acquisition mentioned in note 9 be completed, the conversion rate will be 55 common shares for each \$1,000 debenture.
- (b) The trust deed provides for the establishment of a sinking fund for the retirement of \$75,000 principal amount on December 1 in each of the years 1969 to 1986 inclusive.

3. INDUSTRIAL DEVELOPMENT BANK LOAN

The land and buildings of a subsidiary company have been pledged as security for the loan. The company is required to make repayments of \$1,000 per month until July 23, 1972, the balance becoming due on August 23, 1972.

4. CAPITAL ASSISTANCE GRANT

- (a) During the year, the company received a further capital assistance grant from the Government of Canada in the amount of \$214,776 to purchase equipment for use in defence contracts. The terms of the capital assistance agreements require repayment of fifty per cent of the grant, without interest, in equal annual amounts over five years.
- (b) The equipment has been included in fixed assets at cost less the fifty per cent paid by the Government of Canada. However, title

does not pass until the repayment to the Government outlined above has been made.

5. PREFERENCE SHARES

- (a) During the year the company purchased for cancellation 44 preference shares for \$4,224. The difference of \$176 between the purchase price and par value of the shares has been included in contributed surplus.
- (b) The company is required on or before January 1 of each year to establish a sinking fund for the redemption or purchase for cancellation of the outstanding preference shares, being the greater of:
- (i) 3% of the consolidated net profit for the preceding fiscal period after dividends on preference shares, or
 - (ii) 2% of the aggregate par value of the preference shares issued and outstanding at the end of the preceding fiscal period.

6. COMMON SHARES ISSUED

During 1968 the company purchased all the outstanding shares of Motor Specialty Mfrs. (Ontario) Limited for a consideration of \$60,000 through the issuance of 3,000 common shares.

7. LEASE COMMITMENTS

Total rentals paid for the year ended August 31, 1968 and minimum future commitments (excluding tax and like expenses) under leases of a duration of more than five years are:

	\$
Year ended August 31, 1968	46,871
Five years, 1969-1973	137,295
Five years, 1974-1978	78,588

8. NON-DISCLOSURE OF SALES

Pursuant to an Order of the Supreme Court of Ontario made in October 1967, the company was exempted from disclosing sales as required by The Corporations Act for a period of eighteen months.

The percentage decrease in sales in 1968 over 1967 was 13.3%.

9. PROPOSED ACQUISITION

The company entered into an agreement after August 31, 1968 to acquire all the issued capital stock of Multimatic Investments Limited for a consideration of \$2,000,000, payable \$800,000 in cash and the balance by the issue of 100,000 common shares. The acquisition will be completed on December 5, 1968 providing certain conditions are met.



Consolidated Statement of **Earnings** and **Retained Earnings**
for the year ended August 31, 1968

	1968 \$	*1967 \$
EARNINGS BEFORE DEDUCTING THE FOLLOWING ITEMS (note 8)	747,227	1,434,811
Depreciation	234,174	161,953
Cost of long-term debt	116,798	43,078
Remuneration of directors and senior officers	96,561	83,836
Non-recurring items (net)	—	39,134
	447,533	328,001
	299,694	1,106,810
PROVISION FOR INCOME TAXES (note 1)		
Current	117,300	500,000
Deferred	29,000	67,700
	146,300	567,700
NET EARNINGS FOR THE YEAR	153,394	539,110
RETAINED EARNINGS — BEGINNING OF YEAR	963,618	615,294
	1,117,012	1,154,404
Accumulated deferred income taxes (note 1)	—	136,300
Dividends —		
Preference shares	13,821	14,884
Common shares	35,153	35,002
Premium on redemption of 6¾% mortgage bonds	21,240	—
Unamortized debt financing expense on bonds and debentures redeemed	21,045	—
Re-allocation to contributed surplus	—	4,600
	91,259	190,786
RETAINED EARNINGS — END OF YEAR	1,025,753	963,618

*1967 figures have been changed to reflect deferred income tax accounting adopted in 1968 — see note 1.



MAGNA ELECTRONICS CORPORATION LIMITED

Divisions:

Magna Electronics , 1480 Birchmount Road, Scarborough, Ontario	Qualified Precision Finishers , 41 Crockford Boulevard, Scarborough, Ontario
Verral Metal Fabricators , 22 Howden Road, Scarborough, Ontario	Magna Cote , 41 Crockford Boulevard, Scarborough, Ontario
Progressive Anodizers , 41 Crockford Boulevard, Scarborough, Ontario	Motor Specialty Mfrs. (Ontario) Limited , 1783 Mattawa Road, Cooksville, Ontario
Multimatic Investments Limited , 153 Edystone Avenue, Downsview, Ontario	

This breathtaking picture of the earth rising above the desolate lunar landscape was photographed by the Apollo 8 astronauts while orbiting the moon.

